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APPENDIX A

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AIRPORT PARKING OPERATIONS

DAILY REVENUE DEPOSITS - MARCH THROUGH MAY, 1989..... A-1

INTRODUCTION

In accordance with the City Auditor's 1988-89 Audit Workplan, we have completed our second of two audits concerning the San Jose Airport Department parking operations. We conducted this audit according to generally accepted governmental auditing standards, and limited our work to those areas specified in the Scope and Methodology section of this report.

BACKGROUND

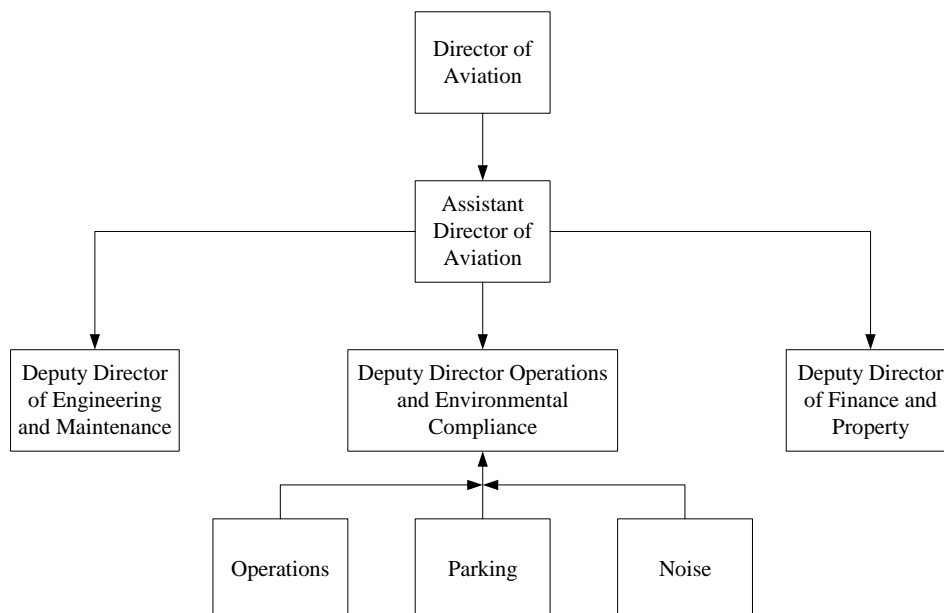
During 1988-89, 1,732,000 vehicles used the airport parking lots resulting in \$10,175,000 in parking revenue. While the number of vehicles and revenues are 10 percent and 9 percent less respectively than 1987-88's figures, parking is still the Department's largest revenue source.

Airport Parking Operations

As the following organization chart shows, Airport Parking Operations is a component of the Airport Parking and Roadways Program. The Deputy Directors for Operations and Environmental Compliance, and Finance and Property, are jointly responsible for administering the program. Airport Parking Operations staff include one Parking Coordinator and one part-time Account Clerk.

ORGANIZATIONAL CHART

Airport Department



Our first audit report issued in May 1989 recommended that the Department consider adding staff to the Parking Operations component. The City Council appropriated \$151,500 for three new positions in 1989-90. These positions are an Accountant, a Fleet Manager and a Senior Clerk Typist. The Department is recruiting for these positions.

The Parking Coordinator is responsible for overseeing the parking lot operations and collections, including the performance of the subcontractor, AMPCO Parking, a subsidiary of American Building Maintenance Industries, Inc. The Department pays AMPCO for necessary operating expenses plus a \$3,000 monthly management fee to operate the parking lots and the shuttle bus service.

Parking Lots

The Department currently operates one short-term lot, three long-term lots, and one employee lot. Effective July 1, 1989, the short-term or hourly lot minimum charge is 50 cents per half-hour with a maximum of \$16 for each 24-hour period. From June 6, 1988 through June 30, 1989, the rate was 50 cents per half hour with \$24 maximum for each 24-hour period. The long-term or daily lots charge a minimum of 50 cents per half-hour up to a maximum of \$6 for each 24-hour period. At the employee lot, parking for Department employees is free, but airport tenant and airline employees pay \$5 per month.

Flow Of Parking Revenue

AMPCO is responsible for collecting and remitting parking fees on a daily basis. About 80 percent of the total fees are in the form of cash and personal checks. Credit cards account for the remaining 20 percent. After each shift, AMPCO administrative staff collect the parking revenue from each AMPCO cashier, prepare a Daily Master Recap report summarizing the parking revenue, and deposit the receipts into an AMPCO bank account. Next, AMPCO writes a check out of its bank account for the total revenue shown on the Daily Master Recap report. AMPCO forwards the check along with the report to the Department's Finance and Property Division. The Department deposits AMPCO's check into the City's Security Pacific National Bank account. These are identifiable as Airport deposits.

During the early part of our audit, we noticed that the Department was depositing AMPCO's check into a Department bank account at Imperial Bank. The Department would then draw a check against the Imperial Bank account and submit it to the Finance Department's Treasury Division. Treasury would then deposit the check in the City's Security Pacific National Bank account. This practice was costing the City money in lost opportunity to invest those funds and unnecessary bank charges to maintain the extra Imperial Bank account. After we discussed this matter with Airport officials, the Department eliminated the Imperial Bank account.

Parking Expenses And Reimbursements

The Department directly pays for some parking operation expenses and reimburses AMPCO for others. The Department's direct expenses include the purchase of office equipment, shuttle buses, and other equipment; shuttle bus maintenance and repairs, tires, gas and oil.¹

The Department reimburses AMPCO monthly for certain necessary expenses to run the parking operations. Such expenses include payroll and related expenses, credit card processing fees, bank charges for maintaining an account with First Interstate Bank, insurance, telephone and office supplies.

¹ Effective July 1, 1989, the Department entered into a Memorandum of Understanding with the Department of General Services to secure shuttle bus maintenance and repair services on an interim basis. As of July 17, 1989, the Department of General Services was soliciting bids from vendors to provide future shuttle bus maintenance and repair services.

SCOPE AND METHODOLOGY

This audit report is the second of two reports covering the San Jose Airport Department's parking operations.

The objective of this audit was to evaluate specific parking revenue and operational controls. Specifically, we reviewed the Department's trend of waiving parking fees and providing free exits for fiscal years 1986-87 through 1988-89. We also examined the free exit practices of the San Francisco and Oakland airports.

We analyzed the efficiency of handling parking revenues. In particular, we examined bank deposit and credit card processing efficiency, and bank service, personal check, and credit card processing fees.

We also assessed the objectivity of the parking customer complaint process, controls over AMPCO expense reimbursements, and the need for parking fee displays at parking lot exit booths.

FINDING I

THE AIRPORT DEPARTMENT NEEDS TO IMPROVE ITS CONTROLS OVER FREE PARKING EXITS

To promote good customer relations, the Department has a policy to waive parking fees for backed-up vehicles during busy times when the exit lines become congested. During 1986-87, 1987-88, and 1988-89, the Department waived \$228,000 in parking fees. Back-ups are caused by excessive numbers of exiting vehicles, limited exit access, mechanical problems, and credit card processing. Unlike neighboring airports, when excessive back-ups occur, the Department extends free parking to all of the vehicles waiting in the exit lines. We found that the Department needs to improve its controls over and monitoring of free exits.

Department Policy

The Department has a standing policy to waive parking fees when the lines of exiting vehicles at the hourly lot are backed-up to about 34 vehicle lengths from the exit gate. This policy is intended to minimize customer inconvenience and promote good customer relations during busy operating times by reducing the time it takes a vehicle to exit the parking lots.

We noted that the busiest days at the exit gates are on Thursdays, Fridays and Sundays. Most of the free exits are at the short-term hourly lot. During 1988-89, the value of free exits has averaged about \$7,800 per month.

Exit Line Congestion

The primary reason for exit line congestion is the limited number of exit lanes at the short-term hourly lot. During our review, this lot had only three exit lanes. This was a sufficient number of lanes under only the best of circumstances. However, when the number of exiting customers was excessive or parking control equipment broke down or customers used credit cards to pay for their parking, the number of exit lanes was insufficient. Specifically, when parking equipment fails, AMPCO cashiers must process tickets manually. This is a time consuming process. In addition, it takes extra time to process credit card payments. When these situations arise, the exit lines become congested, the waiting vehicles exceed the waiting line length criteria and all of the waiting vehicles are allowed to exit without paying.

TABLE I shows the number of free exits and the dollar value of those exits for 1986-87 through 1988-89.

TABLE I
VALUE AND NUMBER OF FREE PARKING EXITS
DURING 1986-87, 1987-88, AND 1988-89

	<u>Exit</u> <u>Value</u>	<u>Number</u> <u>of Free</u> <u>Exits</u>	<u>Average</u> <u>Value Per</u> <u>Free Exit</u>
1986-87	\$ 29,000	12,341	\$ 2.35
1987-88	71,000	22,063	3.22
1988-89	<u>93,000</u>	<u>25,818</u>	3.60
Total And Three Years Average	193,000	60,222	3.20
City Council Approved			
Free Parking²	<u>35,000</u>	<u>70,522</u>	
Total Parking Fees Waived			
And Free Exits	<u>\$228,000</u>	<u>130,744</u>	

Source: Airport Department (unaudited)

As shown in TABLE I, the number and value of free exits have steadily increased since 1986-87. Excluding the City Council approved free parking, the value of free exits increased by 145 percent from 1986-87 to 1987-88 and by 31 percent from 1987-88 to 1988-89.

² In November, 1988, the Department requested and the City Council passed a resolution authorizing the Airport to waive the parking fee for the first half-hour charge in the Short Term Hourly lot from November 23, 1988 through November 27, 1988, and December 23, 1988 through January 2, 1989. The free parking was to prevent vehicular traffic congestion at the terminal curbside area during the Thanksgiving and Christmas/New Year holidays. The Department estimated that \$17,000 in parking fees would be waived. The actual parking fees waived during that period was \$35,261.

Practice Of Neighboring Airports

Neither Oakland International nor San Francisco Airports allow free exits. Oakland International discontinued the practice due to revenue considerations. In addition, San Francisco International Airport does not allow any free exits unless the parking situation endangers life or property.

Improved Controls Are Needed

According to Department officials, it is the Department's policy that AMPCO employees are not to allow free exits unless an authorized Department official approves and supervises the free exits. However, our review revealed that the Department has not formally adopted written procedures regarding free exits. Further, AMPCO has written procedures that directly contradict the Department's free exit policy.

AMPCO issued an instruction manual to its supervisors entitled Contingencies For Expediting Exits From Lot #2 When Facilities Are Overwhelmed. That manual states the following regarding free exits.

". . . If the line of cars backs up in the center aisle past Sign #17, no matter what the circumstances, all vehicles are to be exited immediately without payment and without securing any authorization from either Airport officials or the Lot Manager. . ."

The above AMPCO instructions directly contradict the Department's verbalized requirement that authorized Department officials must approve and supervise all free exits. As a result, to the extent AMPCO followed their own written

instructions, the Department was exposed to revenue losses from unjustified or inappropriate free exits. In our opinion, the Department should promulgate formal written procedures regarding free exits. In addition, the Department should instruct AMPCO to modify its operating instructions to conform with the Department's free exit policy.

Planned Improvements

In June, 1989, the Airport added two more exit lanes at the short-term hourly lot. These two new exit lanes at the hourly lot and the new automated parking revenue control system noted in our May 1989 report should remedy most of the exit lane congestion problem. In our opinion, the Department should evaluate the effectiveness of the new lanes and automated equipment or traffic congestion. Based upon that evaluation, the Department should consider restricting its free exit policy to only emergency situations.

CONCLUSION

In an effort to promote customer relations, the Department has waived \$228,000 in parking fees through free exits during 1986-87, 1987-88 and 1988-89. Parking fees were waived because of exit line congestion, primarily at the short-term hourly lot. Exit line congestion was due to an excessive number of exiting vehicles, limited exit access, mechanical problems, and credit card processing. Parking fees

were waived also for the first one-half hour of parking at the hourly lot during the Thanksgiving, Christmas and New Year holidays during 1988-89. Neighboring airports do not allow free exits except in extreme situations. The Department should formalize its policy on free exits and request AMPCO to modify its operating instructions to conform with that policy. That change, coupled with planned parking operation improvements and a modified free exit policy should reduce the number of free exits and ensure that free exits are justified and appropriate.

RECOMMENDATIONS

We recommend that the Airport Department:

Recommendation #1:

Promulgate formal written procedures regarding free exits and require AMPCO to modify its operating instructions to conform with the Department's free exit policy. (Priority 1)

Recommendation #2:

Evaluate the effectiveness of the new parking lot exit lanes and automated equipment on traffic congestion. Based upon that evaluation, the Department should consider restricting its free exit policy to only emergency situations. (Priority 1)

FINDING II

IMPROVED CREDIT CARD PROCESSING COULD SAVE THE DEPARTMENT ABOUT \$10,500 PER YEAR

Adding a feature to the automated credit card terminals that AMPCO's cashiers use when collecting parking payments would produce several benefits. Specifically, the Department could save about \$10,500 annually, enhance its controls over revenues, expedite existing vehicles, and save staff time.

Credit Card Processing Efficiency

The Department could increase credit card processing efficiencies and realize about \$10,500 in savings if it adds a "data capture" feature to equipment it already has. Specifically, each exit lane currently has an automated terminal for securing approval from credit card companies when existing parkers wish to use their credit card to pay their parking fee. The cashier slides the credit card through a slot in the terminal to activate it. The terminal reads the pertinent credit card information, dials the credit company to get approval, and indicates whether the transaction is approved or declined. If approved, the cashier manually prepares a credit card draft indicating the parking fee amount and secures the customer's signature.

At the end of their shift, cashiers turn in the credit card drafts to the AMPCO parking office. The drafts are batched and sent to the credit card companies for

collection. The credit card companies charge AMPCO for collection and AMPCO passes the charges onto the Department.

The process can be streamlined by incorporating a "data capture" feature into the automated terminals. This feature automatically captures the credit card transaction and sends it to the Department's bank which credits the Department's account within 48 hours. This process could 1) eliminate the need to batch the credit card drafts to the credit card companies 2) reduce the risk of losing the drafts, and 3) speed up the revenue remittance process. In addition, the data capture feature includes a small printer which would prepare the necessary forms that cashiers currently produce manually. This feature would streamline the payment process for credit card users. As a result, vehicles should be able to exit the parking lots faster. This should please passengers and reduce the need for free exits (see FINDING I). Finally, the data capture feature will print a summary of credit card transactions for each cashier's shift. This feature would not only produce an audit trail but would save significant Department staff time.

Adopting the data capture feature for credit card transactions would reduce the time required for both the Department and the bank to process credit card transactions. As a result, an official at the Department's bank stated that the bank would be willing to reduce the discount rate it charges the Department by at least one

percentage point. With the reduced discount rate, the Department would realize about \$10,500 in annual savings.

It should be noted that the data capture feature is available for MasterCard, VISA and American Express Card users. It is not available for two other cards the Airport accepts - Diners Club and Carte Blanche. However, Diners Club and Carte Blanche represented only about 2 percent of credit card transactions in 1987.

To implement the data capture feature, the Department would need to rent or purchase the small printers for each cashier station. The price of each printer is about \$250. In our opinion, the \$10,500 in annual savings the data capture feature would generate more than justifies the cost.

CONCLUSION

We identified an opportunity to increase credit card processing efficiencies at the Department's parking lot. By using a data capture feature for credit card payments 1) exits from the parking lot should be expedited, 2) audit trails would be created, 3) Department staff time would be saved and 4) Department costs would be reduced about \$10,500 per year.

RECOMMENDATIONS

We recommend that the Airport Department:

Recommendation #3:

Install a "data capture" feature on its automated credit card terminals that AMPCO's cashiers use when collecting parking payments. (Priority 1)

FINDING III

OPPORTUNITIES EXIST TO GENERATE AN ADDITIONAL \$11,000 IN ANNUAL INTEREST INCOME AND REDUCE BANKING CHARGES BY \$12,000 PER YEAR

AMPCO is contractually required to remit parking lot receipts to the City on a daily basis. However, our review revealed that AMPCO consistently deposited daily parking revenues late. As a result, the Department is losing an estimated \$11,000 per year in interest income because of lost investment opportunities. In addition, AMPCO deposits parking receipts directly into their bank account and not the Department's bank account. This results in redundant transactions and unnecessary bank service charges of about \$12,000 per year. Consequently, the Department is losing over \$23,000 annually in lost interest income and unnecessary bank service charges.

AMPCO Remittances Have Been Late

The contract between AMPCO and the Department requires AMPCO to remit parking revenues on a daily basis. Our review of March, April and May, 1989, remittances revealed that AMPCO consistently remitted parking collections late (see APPENDIX A). We found that AMPCO made late deposits for 91 of the 92 days we reviewed. AMPCO's deposits ranged from one to nine days late and were late 4.2 days on the average. During the sample period, the City lost \$2,818 in interest. This projects to more than \$11,000 per year.

Unnecessary Bank Transactions And Service Charges

On a daily basis, AMPCO collects parking revenues and deposits them into its First Interstate Bank account. AMPCO then writes a check to the Department for the total amount collected. This transaction could be eliminated if AMPCO made the deposit directly into the Department's bank account. Furthermore, direct deposits would improve control over the funds and expedite the City's investment process.

The Department currently pays for AMPCO's bank service charges. During 1988, AMPCO's bank service charges averaged about \$1,000 per month or \$12,000 for the year. These charges could be eliminated or reduced significantly if AMPCO made direct deposits into the Department's bank account.

CONCLUSION

AMPCO has not complied with its contract requirement to make daily deposits and has incurred unnecessary bank service charges by not depositing parking revenues directly into the Department's banking account. As a result, the Department has lost an estimated \$23,000 per year in foregone interest income and unnecessary bank service charges.

RECOMMENDATIONS

We recommend that the Airport Department:

Recommendation #4:

Ensure that AMPCO remits parking revenues on a daily basis as required in its contract with the Department. (Priority 1)

Recommendation #5:

Require AMPCO to deposit parking revenue collections directly into the Department's bank account to eliminate unnecessary bank service charges.
(Priority 1)

FINDING IV

THE DEPARTMENT'S CUSTOMER COMPLAINT PROCESS COULD BE IMPROVED

The Department has a Work Management System objective to limit the number of customer complaints to a specific target. However, our review revealed that the Department's complaint collection process lacks objectivity. As a result, customer complaints may not be accurately recorded or reported. By using a written customer complaint process, the Department could enhance the objectivity of its customer complaint process without incurring significant costs.

Complaint Process Objectivity Is Lacking

The Department has a 1988-89 Work Management System objective of limiting overall customer complaints regarding parking to 50 complaints per 100,000 parking transactions. Given the manner in which complaints are currently recorded, objectivity is lacking. Specifically, parking customers register their complaints verbally with the AMPCO cashier at each exit booth. Each cashier records the verbal complaints in the following categories:

- Parking rates are considered excessive;
- The wait in the exit line was too long;
- There was no parking available because the lot was full; and
- Construction at the Airport caused delays or confusion.

At the end of each shift, the cashier is supposed to tabulate and report on customer complaints by category.

While there are drawbacks to any system of gathering customer complaints, the Department's process has some obvious flaws. First and foremost, when a customer complains about the cashier or a fellow parking lot employee, the cashier may have a tendency to not record the complaint. In addition, when the parking lots are busy, cashiers may not have time to write down complaints. Finally, because customers complain verbally, there is no way to follow-up on any complaints not recorded. As a result, there is no assurance that cashiers are accurately recording and/or reporting customer complaints.

An alternative to the Department's current customer complaint process would be to establish an accessible suggestion/complaint box system. This would be a cost-effective, objective method to gather customer complaints. According to Department officials, the Department currently uses such a system in the terminal area.³ Written customer complaints could be dropped into locked boxes placed in conspicuous locations in the parking lots. Employees not involved in parking operations could collect, tabulate and report customer complaints to Department officials.

³ Audit staff and Department representatives inspected the terminal area on July 28, 1989, and were able to locate only three suggestions/complaint receptacles. Only one of the three receptacles contained suggestion/complaints forms for customer to fill out.

CONCLUSION

The Department's current customer complaint process for parking lot operations provides no assurance that complaints are accurately recorded and/or reported. Providing parking customers with an accessible and secure suggestion/complaint box system would enhance the credibility of the customer complaint data the Department reports in its Work Management System.

RECOMMENDATIONS

We recommend that the Airport Department:

Recommendation #6:

Place locked suggestion/complaint boxes in conspicuous locations at the terminals and at the parking lot exit booths. Department personnel not involved in parking operations should open the suggestion/complaint boxes and tabulate and report any customer complaints to Department officials. (Priority 3)

FINDING V

IMPROVED CONTROLS ARE NEEDED OVER AMPCO EXPENSE REIMBURSEMENTS

Our limited review of AMPCO expense reimbursements revealed that the Department made a double payment to AMPCO for \$3,841. In addition, we noted that AMPCO does not submit original expense invoices when requesting reimbursement from the Department or prepare reimbursement vouchers on a regular basis. As a result, the Department is exposed to the risk of making double payments.

Reimbursement Process Deficiencies

In an initial test of reimbursement controls, we reviewed AMPCO's reimbursements from March 1986 to January 1989. During our review, we identified a double payment of \$3,841.50 for July 1988 American Express Company credit card charges. The Department made the first payment in November, 1988 and the second in January, 1989.

Since our test sample was limited, we were unable to determine if this was a random situation or a systemic deficiency. The Office will pursue this issue further during our next audit of Department parking revenues. In the meantime, the Department should recover the \$3,841.50 double payment made to AMPCO.

We also found that AMPCO submits to the Department copies of original invoices to support their expenses. This exposes the Department to the risk that AMPCO could submit the same expense for reimbursement more than once.

Other observations indicate that AMPCO does not prepare reimbursement vouchers on a regular basis. Of the 31 vouchers we reviewed, some contained expense transactions for the prior month, while others consisted of expenses from one to three months back. We noted one voucher contained expenses that were at least five months old. This irregular processing frequency makes it more difficult for the Department to detect double billings.

The Department could minimize the potential for double payments by requiring AMPCO to submit monthly reimbursement vouchers for prior month expenses only. Further, the Department could require AMPCO to submit original invoices as proof of payment. When we discussed these options with the Department, they told us that AMPCO's auditors require them to retain original invoices. In addition, because AMPCO takes 30 to 45 days to pay for goods and services, "paid the prior month" is different from "prior month expenses." As an alternative, the Department proposed two new procedures. First, the Department would keep copies of AMPCO's invoices in their files instead of forwarding them to the Finance Department. Second, the Department's new Accountant would prepare a computer spreadsheet to keep track of AMPCO's invoices and monitor payments. In

our opinion, the Departments' alternative solution should reduce the risk of double payments to an acceptable level.

CONCLUSION

Based on our limited review, the Department needs to improve controls over AMPCO expense reimbursements. We found that the Department made a double payment to AMPCO for \$3,841. In addition, AMPCO submits copies of original invoices to support requested expense reimbursements and does not prepare reimbursement vouchers on a regular basis. As a result, the Department is exposed to the risk of making double payments to AMPCO.

RECOMMENDATIONS

We recommend that the Airport Department:

Recommendation #7:

Recover the \$3,841.50 double payment made to AMPCO. (Priority 2)

Recommendation #8:

Retain copies of AMPCO's invoices and maintain a computer spreadsheet of reimbursed invoices. (Priority 2)

FINDING VI

PARKING FEES DISPLAYS NEED TO BE REINSTALLED AT PARKING LOT EXITS

Parking fee displays are an important control against parking lot cashier embezzlements. In June 1989, the Department installed a new revenue control system for its parking lot operations. Since that time, parking fee displays have not been in place at parking lot exit booths. The Department plans to have parking fee displays installed by November 1989. Earlier installation would reduce the Department's exposure to revenue losses.

Parking Fee Displays

Parking fee displays are used at parking lot exit booths to show customers how much their fee is and the amount of their change. The amounts shown to the customer are also entered into the parking lot's computerized revenue control system.

Parking fee displays discourage cashiers from collecting one amount from a customer and entering another amount into the computer system. In addition, customers are sometimes advised to report any differences between what is shown on the parking fee display and what the cashier collects. Together, these elements function as an important control against cashier embezzlements.

Parking Fee Displays Are Not Installed

The Department's previous revenue control system had parking fee displays at its parking lot exit booths. However, as of July 28, 1989, we observed that parking fee displays were no longer installed. According to a Department official, the Department will reinstall parking fee displays by November 1989.

In our opinion, it is critical that the Department reinstall the parking fee displays before November 1989, if possible. Any delays in installing parking fee displays will expose the Department to revenue losses.

CONCLUSION

Parking fee displays are not installed at the Department's parking lot exit booths. As a result, the Department is exposed to revenue losses from cashier embezzlements. The Department should install parking fee displays sooner than November 1989, if possible.

RECOMMENDATIONS

We recommend that the Department:

Recommendation #9:

If possible, expedite the reinstallation of parking fee displays. (Priority 1)

Recommendation #10:

Post signs at the parking fee displays advising customers to report to the Department any difference between the amount shown on the parking fee display and the amount the cashier collected. (Priority 1)